

ARCHDIOCESE OF MILWAUKEE

Milwaukee, Wisconsin

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2017 and 2016

ARCHDIOCESE OF MILWAUKEE

TABLE OF CONTENTS As of and for the Years Ended June 30, 2017 and 2016

Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	2 - 3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 32

INDEPENDENT AUDITORS' REPORT

The Most Reverend Jerome E. ListECKi, Archbishop of Milwaukee
Archdiocese of Milwaukee
Milwaukee, Wisconsin

We have audited the accompanying financial statements of the Archdiocese of Milwaukee, which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Archdiocese of Milwaukee as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
November 2, 2017

Statements of Financial Position follow

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF FINANCIAL POSITION As of June 30, 2017 and 2016

	<i>ASSETS</i>	
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 11,087,462	\$ 12,892,462
Short-term investments	8,997,342	3,262,805
Receivables - net	3,172,355	3,500,121
Other assets	<u>1,057,436</u>	<u>675,974</u>
Total Current Assets	24,314,595	20,331,362
Ground burial and mausoleum crypt sites	4,707,237	5,208,649
Property and equipment, net	4,306,258	4,298,882
Beneficial interest in Cemetery Trust	53,996,704	50,469,952
 INVESTMENTS AND OTHER ASSETS		
Long-term investments	8,429,300	8,227,210
Custodial investments held for others	1,561,561	1,698,192
Cemeteries pre-need trust fund account	4,477,086	4,100,670
Charitable gift annuities investments	361,568	394,541
Other assets	<u>1,314,091</u>	<u>968,481</u>
Total Investments and Other Assets	<u>16,143,606</u>	<u>15,389,094</u>
 TOTAL ASSETS	<u>\$ 103,468,400</u>	<u>\$ 95,697,939</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current maturities of note payable	\$ 133,898	\$ 187,871
Current maturities of charitable gift annuities	26,390	30,900
Accounts payable	1,469,467	1,040,254
Contributions payable	2,559,534	2,609,174
Deferred revenue	1,050,683	1,298,802
Current portion accrued cemetery pension benefits	661,547	95,000
Current portion accrued priests' retiree medical benefits	<u>928,173</u>	<u>894,108</u>
Total Current Liabilities	6,829,692	6,156,109
Equity of others held as custodial investments	1,561,561	1,698,192
Charitable gift annuities net of current portion	172,871	201,517
Deferred revenue	4,477,086	4,100,670
Long-term asset retirement obligation	1,056,575	1,050,000
Line of credit	2,000,000	2,000,000
Note payable net of current portion	3,866,893	4,004,553
Accrued cemetery pension benefits net of current portion	-	2,533,664
Accrued priests' retiree medical benefits net of current portion	<u>21,761,018</u>	<u>23,570,158</u>
Total Liabilities	<u>41,725,696</u>	<u>45,314,863</u>
NET ASSETS		
Unrestricted		
Undesignated operating (deficit)	(10,241,340)	(15,617,365)
Designated	2,220,852	2,108,352
Limited to perpetual care of cemeteries	<u>53,996,704</u>	<u>50,469,952</u>
Total Unrestricted Net Assets	45,976,216	36,960,939
Temporarily restricted	12,050,122	9,705,771
Permanently restricted	<u>3,716,366</u>	<u>3,716,366</u>
Total Net Assets	<u>61,742,704</u>	<u>50,383,076</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 103,468,400</u>	<u>\$ 95,697,939</u>

See accompanying notes to financial statements.

Statements of Activities follow

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF ACTIVITIES For the Years Ended June 30, 2017 and 2016

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING REVENUE, GAINS, AND OTHER SUPPORT				
Contributions for charitable activities	\$ 1,545,191	\$ 10,584,703	\$ -	\$ 12,129,894
Assessments	7,373,544	-	-	7,373,544
Tuition and fees for ministry programs	703,839	-	-	703,839
Cemetery revenues	5,317,415	-	-	5,317,415
Distributions from Cemetery Trust	1,950,000	-	-	1,950,000
Investment income	242,945	85,010	-	327,955
Other revenues	1,054,846	-	-	1,054,846
Net assets released from restrictions	8,937,974	(8,937,974)	-	-
Total Revenue, Gains, and Other Support	<u>27,125,754</u>	<u>1,731,739</u>	<u>-</u>	<u>28,857,493</u>
OPERATING EXPENSES				
Wages and benefits	13,604,618	-	-	13,604,618
Facility and operating costs	2,231,011	-	-	2,231,011
Training, certifications, and ministries travel	304,833	-	-	304,833
Bad debts	(50,876)	-	-	(50,876)
Ministries program expenses and supplies	1,056,528	-	-	1,056,528
Assessments	388,294	-	-	388,294
Cost of sales - cemeteries	912,531	-	-	912,531
Purchased services - ministries and other	3,038,134	-	-	3,038,134
Professional services	268,131	-	-	268,131
Charity and contractual grants and donations	3,312,617	-	-	3,312,617
Other expenses	1,339,084	-	-	1,339,084
Depreciation	407,584	-	-	407,584
Asset retirement expense	19,550	-	-	19,550
Total Operating Expenses	<u>26,832,039</u>	<u>-</u>	<u>-</u>	<u>26,832,039</u>
Operating Income	<u>293,715</u>	<u>1,731,739</u>	<u>-</u>	<u>2,025,454</u>
NON-OPERATING ACTIVITIES				
Net realized and unrealized gains (losses)	(212,482)	612,612	-	400,130
Gain on sale of property and equipment	1,000	-	-	1,000
Priest Medical related changes other than net periodic pension cost	3,251,659	-	-	3,251,659
Cemetery pension related changes other than net periodic pension cost	2,136,068	-	-	2,136,068
Change in beneficial interest in Cemetery Trust	3,545,317	-	-	3,545,317
Total Non-Operating Activities	<u>8,721,562</u>	<u>612,612</u>	<u>-</u>	<u>9,334,174</u>
CHANGE IN NET ASSETS BEFORE REORGANIZATION ACTIVITIES				
	9,015,277	2,344,351	-	11,359,628
REORGANIZATION ACTIVITIES				
Reorganization expenses	-	-	-	-
CHANGE IN NET ASSETS	9,015,277	2,344,351	-	11,359,628
NET ASSETS - Beginning of Year	<u>36,960,939</u>	<u>9,705,771</u>	<u>3,716,366</u>	<u>50,383,076</u>
NET ASSETS - END OF YEAR	<u>\$ 45,976,216</u>	<u>\$ 12,050,122</u>	<u>\$ 3,716,366</u>	<u>\$ 61,742,704</u>

See accompanying notes to financial statements.

2016			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 1,951,774	\$ 9,922,050	\$ -	\$ 11,873,824
7,273,535	-	-	7,273,535
715,961	-	-	715,961
4,732,418	-	-	4,732,418
1,950,000	-	-	1,950,000
234,076	29,868	-	263,944
1,003,550	-	-	1,003,550
<u>9,692,437</u>	<u>(9,692,437)</u>	<u>-</u>	<u>-</u>
<u>27,553,751</u>	<u>259,481</u>	<u>-</u>	<u>27,813,232</u>
12,981,945	-	-	12,981,945
2,230,991	-	-	2,230,991
387,473	-	-	387,473
814,461	-	-	814,461
983,468	-	-	983,468
329,939	-	-	329,939
962,914	-	-	962,914
1,943,547	-	-	1,943,547
180,982	-	-	180,982
3,775,714	-	-	3,775,714
1,275,185	-	-	1,275,185
434,591	-	-	434,591
<u>1,050,000</u>	<u>-</u>	<u>-</u>	<u>1,050,000</u>
<u>27,351,210</u>	<u>-</u>	<u>-</u>	<u>27,351,210</u>
<u>202,541</u>	<u>259,481</u>	<u>-</u>	<u>462,022</u>
146,251	(82,004)	-	64,247
25,581	-	-	25,581
(1,031,402)	-	-	(1,031,402)
(697,752)	-	-	(697,752)
<u>(858,052)</u>	<u>-</u>	<u>-</u>	<u>(858,052)</u>
<u>(2,415,374)</u>	<u>(82,004)</u>	<u>-</u>	<u>(2,497,378)</u>
(2,212,833)	177,477	-	(2,035,356)
<u>(7,643,649)</u>	<u>-</u>	<u>-</u>	<u>(7,643,649)</u>
(9,856,482)	177,477	-	(9,679,005)
<u>46,817,421</u>	<u>9,528,294</u>	<u>3,716,366</u>	<u>60,062,081</u>
<u>\$ 36,960,939</u>	<u>\$ 9,705,771</u>	<u>\$ 3,716,366</u>	<u>\$ 50,383,076</u>

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 11,359,628	\$ (9,679,005)
Adjustments to reconcile total non-operating activities to net cash flows from operating activities:		
Bad debt expense (recovery)	(50,876)	814,461
Depreciation and amortization	407,584	434,591
Asset retirement expense	19,550	1,050,000
Reduction in contractual obligations	-	(3,623,100)
Net realized/unrealized (gains) losses	(400,130)	(64,247)
Gain on sale of property and equipment	(1,000)	(25,581)
Change in beneficial interest in Cemetery Trust	(3,545,317)	858,052
Change in charitable gift annuities	(33,156)	(10,961)
Changes in assets and liabilities:		
Receivables and payables	758,215	(6,764,711)
Other assets	(971,105)	38,772
Ground burial and mausoleum crypt sites	507,762	480,464
Deferred revenue	376,416	155,961
Accrued postretirement and pension benefits	(3,742,192)	3,301,128
Net Cash Flows from Operating Activities	4,685,379	(13,034,176)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on notes receivable	244,033	35,685
Purchase of property and equipment	(414,960)	(273,321)
Proceeds from the sale of property and equipment	1,000	29,100
Proceeds from sale of investments	407,686	3,878,629
Purchase of investments	(6,132,430)	(3,925,843)
Notes receivable granted	-	(136,090)
Net change in collections to be forwarded to other entities	(248,119)	171,601
Net change in equity of others held as custodial investments	(136,631)	(781,602)
Proceeds from beneficial interest in Cemetery Trust	-	15,000,000
Capital expenditures cemetery crypts	(6,350)	(503,588)
Net Cash Flows from Investing Activities	(6,285,771)	13,494,571
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(191,633)	(197,089)
Payments made on asset retirement obligation	(12,975)	-
Net Cash Flows from Financing Activities	(204,608)	(197,089)
Net Change in Cash and Cash Equivalents	(1,805,000)	263,306
CASH AND CASH EQUIVALENTS - Beginning of Year	12,892,462	12,629,156
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 11,087,462	\$ 12,892,462
Supplemental cash flow disclosures		
Cash paid for interest	\$ 254,090	\$ 231,696
Cash paid for reorganization activities	-	17,407,784

See accompanying notes to financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

The Archdiocese of Milwaukee (the "Archdiocese") provides ministerial support and services to parishes and other Catholic entities within a ten county region of Southeastern Wisconsin. Our mission is to proclaim Christ and make disciples through the sacramental life of the Church.

The Archdiocese is a not-for-profit Wisconsin corporation, without capital stock. Accordingly, the financial statements do not include any amounts for capital stock. The Archdiocese has a Board of Directors which oversees all ordinary administration. The Archbishop of Milwaukee serves as the canonical administrator of the Archdiocese. The Archdiocese is exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation.

The financial statements include corporate assets, liabilities, and operations of the Archdiocese of Milwaukee, primarily based in the Central Services Offices and the Cemeteries and Mausoleums.

Under the laws of the state of Wisconsin, parishes, their related schools, and certain other Catholic entities operating within the boundaries of the Archdiocese are not under the fiscal and operating control of the Archdiocese. Therefore, in accordance with accounting principles generally accepted in the United States of America, they are not included in the financial statements.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting. All significant balances and transactions between the specific activities have been eliminated in the financial statements.

Cash and Cash Equivalents

Cash equivalents are defined as securities and other short-term investments with maturities at date of acquisition of approximately three months or less.

Investments

Investments are generally recorded at fair value based on quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Archdiocese records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Receivables

The Archdiocese uses the allowance method to account for uncollectible accounts receivable. Bad debts are charged against the allowance when deemed uncollectible. The allowance is based on historic collection experience and a review of the current status of receivables. After performing an analysis of accounts receivable and actual collection experience, the allowance for accounts deemed uncollectible was increased by approximately \$800,000 in the fiscal year ended June 30, 2016. The allowance for accounts deemed uncollectible was decreased by approximately \$50,000 in the the fiscal year ended June 30, 2017.

Receivables are presented net of allowance for uncollectible accounts of \$4,363,939 and \$4,418,298 at June 30, 2017 and 2016, respectively.

Net receivables as of June 30 consist of:

	<u>2017</u>	<u>2016</u>
Accounts and notes	\$ 1,518,544	\$ 1,524,009
Current portion of note receivable	46,174	35,696
Contributions	1,049,700	1,308,836
Parish obligations	517,699	589,707
Interest and dividends	<u>40,238</u>	<u>41,873</u>
Total Accounts Receivable - net	<u>\$ 3,172,355</u>	<u>\$ 3,500,121</u>

Life Insurance Contributions

Donors have contributed multiple life insurance policies on their lives to the Archdiocese. The cash surrender value of \$228,829 and \$195,363 at June 30, 2017 and 2016, respectively, is included in long-term other assets on the statements of financial position.

Miscellaneous revenue has been recorded for the change in cash surrender value of these policies. Contribution revenue is recorded if and when the policy is cashed in.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 and expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized.

Land, buildings, and equipment are primarily carried at cost.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Property and Equipment (cont.)

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	50
Building Improvements	5 - 40
Land Improvements	20
Furniture and Fixtures	10
Equipment	3 - 10
Vehicles	5

The Archdiocese follows current authoritative guidance for accounting for conditional asset retirement obligations. The guidance refers to a legal obligation to perform an asset retirement activity even if the timing and/or settlement is conditional on a future event that may or may not be within the control of an organization. Accordingly, if the Archdiocese has sufficient information to reasonably estimate the fair value of an obligation in connection with an asset retirement, it is required to recognize a liability at the time the liability is incurred. For the year ended June 30, 2016, the Archdiocese recognized a liability for the abatement of asbestos at the Archbishop Cousins Catholic Center ("Center"). As the lessee of the Center, the Archdiocese is responsible for payment of such costs. Liabilities of \$1,056,575 and \$1,050,000 as of June 30, 2017 and 2016, respectively, is found in the statements of financial position as a long-term asset retirement obligation.

Impairment of Long-Lived Assets

The Archdiocese reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. There have been no such losses during the years ended June 30, 2017 and 2016.

Beneficial Interest in Cemetery Trust

The Archdiocese operates cemeteries which assist in caring for the faithful departed by performing an ancient corporal work of mercy – providing and maintaining appropriate facilities for burial of the dead. On April 2, 2007, the Archdiocese of Milwaukee Catholic Cemetery Perpetual Care Trust ("the Cemetery Trust") was created to formalize the trust relationship with respect to funds (the "Perpetual Care Funds") which were held under a fiduciary responsibility to adequately provide for the future care of mausoleums, crypts, and gravesites. The Cemetery Trust is a distinct legal entity whose assets are legally restricted to the purposes of the Cemetery Trust. The Archdiocese disclaims control of the Cemetery Trust or a right to receive assets for any purpose other than for the care and maintenance of cemetery properties.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Beneficial Interest in Cemetery Trust (cont.)

In March 2008, all assets accumulated over time for the future care of cemeteries and mausoleums were moved to a separate investment account controlled by the Cemetery Trust.

In accordance with accounting protocols, a beneficial interest in the Cemetery Trust at the value of the Trust's assets appears on the statements of financial position. The Trust's assets consist primarily of cash and investments.

Pursuant to the bankruptcy settlement between the Cemetery Trust and the Archdiocese (the "Cemetery Trust Settlement Agreement"), the Archdiocese is entitled to receive distributions from the Cemetery Trust in an amount not less than \$487,500 per quarter, to be used solely for the care and maintenance of the cemeteries and mausoleums operated or maintained by the Archdiocese. Pursuant to the Cemetery Trust Settlement Agreement, the Archdiocese is entitled to receive these distributions for so long as the Archdiocese remains obligated to the Cemetery Trust pursuant to the Cemetery Trust Loan (this loan is disclosed in Note 8). The distributions totaled \$1,950,000 each for the years ended June 30, 2017 and 2016.

Accounts Payable

Accounts payable as of June 30 consist of:

	<u>2017</u>	<u>2016</u>
Accounts payable	\$ 761,998	\$ 534,060
Accrued liabilities	621,414	460,826
Deferred revenue	<u>86,055</u>	<u>45,368</u>
Total Accounts Payable	<u>\$ 1,469,467</u>	<u>\$ 1,040,254</u>

Contributions Payable

Total contributions payable consist of contributions payable (current liabilities) of \$2,559,534 and \$2,609,174, as of June 30, 2017 and 2016, respectively. These amounts are primarily Catholic Stewardship Appeal grants for the upcoming year.

Collections to be Forwarded to Other Entities

Collections to be forwarded to other entities represent cash collected on behalf of other Catholic organizations and programs, mainly via the annual Combined Collections fund drive.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Custodial Investments Held for Others

The Archdiocese administers the investments for various programs and organizations within the geographical boundaries of the Archdiocese of Milwaukee. These are not Archdiocesan funds. The Archdiocese may provide administrative services to help support these ministries and programs. The custodial investments held for others as of June 30 consist of:

	2017	2016
Priests' Continuing Formation Program	\$ 1,190,497	\$ 1,281,957
Other	371,064	416,235
Total	\$ 1,561,561	\$ 1,698,192

Net Assets

Net assets, revenues, gains and losses are classified based on external donor imposed restrictions. Accordingly, net assets of the Archdiocese are classified and reported as follows:

Unrestricted Net Assets - Resources of the Archdiocese which have not been restricted by donor-imposed stipulations.

Temporarily Restricted Net Assets - Cash and other assets received with donor-imposed stipulations which limit the use of the donated assets. The stipulations either expire by passage of time or can be fulfilled and removed by actions of the Archdiocese pursuant to those stipulations.

Permanently Restricted Net Assets - Cash and other assets received from donors subject to stipulations that they be maintained in perpetuity by the Archdiocese. Such restrictions can neither expire with the passage of time nor be removed by fulfillment of a stipulated purpose. If the donor does not restrict the allowed use of the income, the Archdiocese may determine the earned income's availability for general or specific purposes.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Board Designated Net Assets

The Archdiocese may designate a portion of unrestricted net assets for a specific purpose. At June 30, designated unrestricted net assets consist of the following:

Specific Purposes

The Board of Directors has designated certain unrestricted net assets consistent with the purposes set forth in the original instruments as of June 30 as follows:

	<u>2017</u>	<u>2016</u>
St. Aemilian Trust (for the establishment of facilities for orphans, dependent, neglected, and delinquent children, for rehabilitation, treatment and other welfare services needed for such ends, and the promotion of education, charity and religion)	\$ 1,482,524	\$ 1,449,615
St. John's Burse (for deaf and hearing impaired ministry)	500,080	497,011
Mary Mother of the Church Endowment Fund	61,292	-
General operations and other	<u>176,956</u>	<u>161,726</u>
 Total Designated Net Assets	 <u>\$ 2,220,852</u>	 <u>\$ 2,108,352</u>

The Archdiocese has an economic interest, as defined by accounting standards, in the Cemetery Trust. Trust funding occurs as part of the sale of burial rights, and trust funds are subject to a fiduciary obligation to be used for the purpose of perpetual care of Archdiocesan Cemeteries.

	<u>2017</u>	<u>2016</u>
Limited to perpetual care of cemeteries	<u>\$ 53,996,704</u>	<u>\$ 50,469,952</u>

Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

The Archdiocese reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Cemetery and Mausoleum Sales

The Archdiocese records revenue on sales of cemetery plots and mausoleum crypts and niches at the date of sale as it has no legal obligation, beyond a short rescission period, to refund any such sale. As such, no reserve for sale returns has been established. As a matter of policy, the Archdiocese has refunded sales under certain circumstances at amounts equal to or less than the original sales price, with the units then returned to inventory. This policy is subject to amendment at any time. The Archdiocese also allows customers to purchase cemetery plots and mausoleum crypts and niches through the installment method in which customers are given four years to pay. Revenue from these sales is recognized immediately. There is a fiduciary obligation which exists to hold certain of the funds collected for perpetual care. After March, 2008, the funds which must be held for the perpetual care of the cemeteries were deposited into the Cemetery Trust.

Contributed Services

Volunteers contribute personal time to assist the Archdiocese in performing various services. Volunteer services are not recorded by the Archdiocese, as these services do not require specialized expertise as defined by generally accepted accounting principles.

Leased Facilities

The Archdiocese of Milwaukee occupies premises owned by DeSales Preparatory Seminary, Inc. As the lessee, the Archdiocese is responsible for payment of operating and maintenance costs of the facilities.

Fundraising Costs

Fundraising costs consisting primarily of payroll, fringe benefits, supplies, and professional services for fiscal years ended June 30, 2017 and 2016 were \$1,161,327 and \$1,128,401, respectively.

Reclassifications

For comparability, certain 2016 amounts have been reclassified to conform with classifications adopted in 2017. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could be different from those estimates.

New Accounting Pronouncements

During 2017, the Archdiocese adopted Accounting Standards Update 2016-01, "Financial Instruments - Overall (Subtopic 825-10)". As a result, the fair value disclosures previously required are not included within the footnotes due to the Archdiocese not meeting the definition of a public business entity.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 1 - Summary of Significant Accounting Policies (cont.)

New Accounting Pronouncements (cont.)

The Financial Accounting Standards Board ("FASB") has issued ASU No. 2016-14, "Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities". ASU No. 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of ASU No. 2016-14 on the Archdiocese's financial statements.

FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Various amendments defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, and clarify the identification of performance obligations and the licensing implementation guidance. Topic 606 (as amended) is effective for fiscal years beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The Archdiocese may elect to apply the guidance early but no earlier than calendar year end 2017. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Archdiocese is currently assessing the effect that Topic 606 (as amended) will have on its results of operations, financial position and cash flows.

In February 2016, FASB issued ASU No. 2016-02, "Leases (Topic 842)" that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the statement of financial position. The Archdiocese will be required to apply the standard for fiscal years and reporting periods beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the impact of ASU No. 2016-02 on the Archdiocese's financial statements.

In November 2016, FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU No. 2016-18"). This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Archdiocese will be required to apply the standard for fiscal years beginning after December 15, 2018. Early adoption will be permitted and the standard should be applied retrospectively upon adoption. Management is currently evaluating the impact of ASU 2016-18 on the Archdiocese's financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 2 - Final Decree Closing Bankruptcy Case

On January 4, 2011, the Archdiocese filed a petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Wisconsin. Following five and one-half years of proceedings, on June 30, 2016, the Bankruptcy Court entered the Final Decree closing the case, and the case was closed on the Bankruptcy Court docket, subject only to the Bankruptcy Court's continued jurisdiction with respect to such matters as may be prescribed by the Amended Plan. This jurisdiction includes, but is not limited to, the enforcement of the Amended Plan (including all related documents contemplated by the Amended Plan) and the Confirmation Order and the entry of orders in aid of confirmation and consummation of the Amended Plan.

The net effect of implementing the Plan provisions and funding Chapter 11 expenses is included on the statements of activities for the year ended June 30, 2016 and consists of:

Total funding of Plan Trust	\$ 21,250,000
Less insurance proceeds	(10,705,798)
Less portion paid by Continuing Formation for Clergy	<u>(1,000,000)</u>
Liability and reorganization expense	9,544,202
Reduction in Contractual Obligations	<u>3,623,100</u>
Total before legal and other fees	5,921,102
Legal and other fees related to bankruptcy	<u>1,722,547</u>
Net Effect	<u>\$ 7,643,649</u>

Throughout the following footnotes, several references will be made to items included in the Amended Plan. Previously published financial statements and accompanying notes can be referenced for more specific details regarding the Amended Plan of Reorganization and its impact on the Archdiocese.

For further information, see the Second Amended Plan of Reorganization, dated September 25, 2015, and the Fourth Amended Disclosure Statement for the Second Amended Plan of Reorganization, dated September 25, 2015. All filings are available on the Public Docket for Case Number 1120059svk.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 - Fair Value of Financial Instruments

As defined by suggested accounting protocols, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Archdiocese uses various valuation methods including the market, income, and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Archdiocese attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observation of the inputs used in the valuation methods, the Archdiocese is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported, and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy.

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 8,932,697	\$ -	\$ 8,932,697
Commercial bonds	-	1,186,748	-	1,186,748
US Government bonds	-	1,590,486	-	1,590,486
US Government agency securities	-	1,763,504	-	1,763,504
Other investments	-	141,959	5,727,977	5,869,936
Beneficial interest in Cemetery Trust	-	-	53,996,704	53,996,704
Total Assets	\$ -	\$ 13,615,394	\$ 59,724,681	\$ 73,340,075

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 - Fair Value of Financial Instruments (cont.)

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	\$ -	\$ 3,262,805	\$ -	\$ 3,262,805
Commercial bonds	-	1,241,246	-	1,241,246
US Government bonds	-	1,714,975	-	1,714,975
US Government agency securities	-	2,111,776	-	2,111,776
Other investments	-	175,109	5,078,833	5,253,942
Beneficial interest in Cemetery Trust	-	-	50,469,952	50,469,952
Total Assets	<u>\$ -</u>	<u>\$ 8,505,911</u>	<u>\$ 55,548,785</u>	<u>\$ 64,054,696</u>

Money market funds are classified as Level 2 as they are not traded in an active market.

The Archdiocese classifies investments in bonds and US Government agency securities as Level 2 items as they are not publicly traded in active markets. The bonds are invested in US Government, corporate, and foreign issues.

The Archdiocese classifies other investments which are held at the Archdiocese of Milwaukee Catholic Community Foundation, Inc. ("CCF") as Level 3. It is not possible to determine a daily value of the Archdiocese's portion of the commingled investment portfolio. The portfolio is divided among a group of investment managers to achieve diversification. CCF's policy requires a written distribution request to be submitted at least 60 days prior to the required distribution date. If a request is for more than 50% of the account balance at the time of the request, CCF reserves the right to defer payment of the amount for up to six months after receipt of the written distribution request.

The Archdiocese classifies the beneficial interest in the Cemetery Trust as Level 3. It is valued based on the value of the underlying assets held by the Trust.

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows:

	Other Investments	Beneficial Interest in Cemetery Trust	Total
Balance, June 30, 2016	\$ 5,078,833	\$ 50,469,952	\$ 55,548,785
Deposits	60,000	461,139	521,139
Withdrawals	(66,193)	(1,950,000)	(2,016,193)
Investment Income	655,337	5,015,613	5,670,950
Balance, June 30, 2017	<u>\$ 5,727,977</u>	<u>\$ 53,996,704</u>	<u>\$ 59,724,681</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 3 - Fair Value of Financial Instruments (cont.)

	Other Investments	Beneficial Interest in Cemetery Trust	Total
Balance, June 30, 2015	\$ 5,224,128	\$ 64,328,004	\$ 69,552,132
Deposits	-	398,371	398,371
Withdrawals	(101,824)	(14,950,000)	(15,051,824)
Investment Income (loss)	(43,471)	693,577	650,106
	<u>\$ 5,078,833</u>	<u>\$ 50,469,952</u>	<u>\$ 55,548,785</u>

NOTE 4 - Investments

Investments by type, as of June 30 are:

	2017	2016
Cash	\$ 4,483,486	\$ 4,098,854
Money market funds	8,932,697	3,262,805
US Government bonds	1,590,486	1,714,795
Commercial bonds	1,186,748	1,241,246
US Government agency securities	1,763,504	2,111,776
Other investments	5,869,936	5,253,942
	<u>\$ 23,826,857</u>	<u>\$ 17,683,418</u>

The classification of investments, as reflected on the statements of financial position, as of June 30 are:

	2017	2016
Short-term investments	\$ 8,997,342	\$ 3,262,805
Long-term investments	8,429,300	8,227,210
Invested funds held for others	1,561,561	1,698,192
Prepaid burials and deposits	4,477,086	4,100,670
Charitable gift annuities investments	361,568	394,541
	<u>\$ 23,826,857</u>	<u>\$ 17,683,418</u>

Net realized and unrealized gains (losses) for all Archdiocese investments for the years ended June 30 are:

	2017	2016
Net realized gains on investments	\$ 164,796	\$ 166,107
Net unrealized gains (losses) on investments	235,334	(101,860)
	<u>\$ 400,130</u>	<u>\$ 64,247</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 4 - Investments (cont.)

Investment securities are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the financial statements.

NOTE 5 - Contributions Receivable

Contributions receivable are reported in the statements of financial position net of allowances for uncollectible amounts and unamortized discounts.

Unconditional promises (pledges/contributions) to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows, when significant. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is expected to be received. Amortization of the discount is included in contribution revenue. The contributions receivable balance as of June 30 is expected to be collected according to the following schedule:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,101,700	\$ 1,344,836
Less: Allowance for doubtful accounts	<u>(52,000)</u>	<u>(36,000)</u>
Net Contributions Receivable	<u>\$ 1,049,700</u>	<u>\$ 1,308,836</u>

NOTE 6 - Ground Burial and Mausoleum Crypt Sites

These properties are recorded at original cost and consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Mausoleum crypts	\$ 1,980,930	\$ 2,468,289
Cemetery land and facilities held for burial privileges	<u>2,726,307</u>	<u>2,740,360</u>
Total	<u>\$ 4,707,237</u>	<u>\$ 5,208,649</u>

The Archdiocese does not provide depreciation on these properties. The cost of individual crypts, niches and cemetery plots are allocated based on the costs of completion and are recorded as expense upon sale.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 7 - Property and Equipment

Property and equipment are summarized as follows as of June 30:

	2017	2016
Land	\$ 1,217,243	\$ 1,217,243
Land improvements	2,166,317	2,139,320
Construction in progress	170,662	-
Buildings	9,461,903	9,323,189
Furniture and fixtures	136,120	67,534
Equipment	782,497	951,024
Vehicles	656,708	656,708
Future parish sites	358,629	358,629
Total	14,950,079	14,713,647
Less: Accumulated depreciation	(10,643,821)	(10,414,765)
Net Property and Equipment	\$ 4,306,258	\$ 4,298,882

Property and equipment includes certain land, buildings, and equipment (other than leasehold improvements and equipment owned directly by the tenants) being used by Pius XI High School, Inc.; St. Thomas More High School, Inc.; St. Joseph High School Inc.; and St. Charles Youth and Family Services, Inc. ("St. Charles"). The Archdiocese and the three high schools have entered into lease agreements for a term ending in 2043 with a renewal option for 15 years. The Archdiocese and St. Charles entered into a lease ending on December 31, 2016, with two five year renewal options for part of the property utilized by St. Charles in its ministry. On February 22, 2016, St. Charles exercised its option to renew the lease for an additional five year term commencing January 1, 2017.

Outlined below are encumbrances on the property and equipment being used by the high schools.

Pius XI High School, Inc.	Subject to a mortgage and two lines of credit. The balances at June 30, 2017 were \$5,235,619 and \$1,225,000, respectively.
St. Thomas More High School, Inc.	Subject to a mortgage for up to \$1,100,000, of which \$929,337 was outstanding at June 30, 2017. A line of credit up to \$1,000,000 with a zero balance at June 30, 2017
St. Joseph High School, Inc.	Subject to a mortgage up to \$350,000 of which \$100,000 is secured by the building and a \$250,000 line of credit secured by the building. The line of credit balance at June 30, 2017 was zero.

The mortgages, loan and lines of credit are non-recourse as to the Archdiocese.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 8 - Business Note

At June 30, 2016, the Archdiocese was indebted to Park Bank for \$4,192,424. Interest was payable monthly at 5.25%. The note matured on the earlier of June 30, 2016 or the effective date of the plan of reorganization, and was secured pursuant to a Business Note dated June 30, 2010, as amended, by a mortgage on the Archbishop Cousins Catholic Center (pursuant to a guaranty by DeSales Preparatory Seminary, Inc., which is the owner of the property) and the St. Charles Youth & Family Services, Inc. property. Interest expense was \$231,696 for the year ended June 30, 2016. Upon the effective date of the Plan of Reorganization (November 30, 2015), the Business Note was refinanced. Under the terms of the new note, the amortization period was three years with monthly payments for principal and interest, with a fixed interest rate of 5.25%. A balloon payment of \$3,340,587 was to be due November 30, 2018.

On October 12, 2016, Catholic Financial Life purchased and assumed all rights and obligations of the business note from Park Bank. The amount financed through Catholic Financial Life was \$4,115,797. Principal and interest payments are due monthly of \$26,261 with a fixed interest rate of 4.60%. Interest expense was \$184,844 for the year ended June 30, 2017. The term of the note is 15 years amortized over 20 years. A balloon payment of approximately \$1.4 million will be due at the end of the 15 year term assuming no additional principal payments are made.

Future maturities for the Catholic Financial Life note are as follows:

2017	\$	133,898
2018		140,189
2019		146,776
2020		153,671
2021		160,891
Thereafter		<u>3,265,366</u>
	\$	<u>4,000,791</u>

The Archdiocese is authorized to draw on a line of credit made available by the Cemetery Trust up to the amount of \$3,000,000. The balance drawn as of June 30, 2017 and 2016 is \$2,000,000. The line of credit bears interest in an amount equal to the lesser of (i) One Year LIBOR (as determined and adjusted annually) plus 200 basis points, or (ii) five (5) percent, and shall be set annually. Interest only payments are made on the first day of each quarter and began on January 1, 2016. For the years ended June 30, 2017 and 2016, the amount of interest paid was \$69,246 and \$33,559 respectively. Commencing on the first day of January, 2025, and on the first day of each calendar quarter, the Archdiocese will make principal payments in the amount of \$50,000 until this line of credit is fully paid. The outstanding principal balance on this credit line is due and payable in full on December 31, 2035. The line of credit is secured by first mortgage liens on the properties discussed in Note 20 and second mortgage liens on real estate known as St. Charles Youth and Family Services Facility and the Archbishop Cousins Catholic Center.

The Archdiocese is authorized to draw on a line of credit made available by Town Bank up to the amount of \$2,000,000. The balance drawn as of June 30, 2017 and 2016 was zero.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 9 - Deferred Revenue

The Archdiocese has both short term and long term deferred revenue. Deferred revenue primarily includes unearned income relating to prepaid burial fees which are to be recognized as revenue as the services are performed. Pre-need payments are treated as trust funds and handled in compliance with Wisconsin Statutes Chapter 157 which states that pre-need trust funds may not be withdrawn until the obligations under the pre-need sales contract have been fulfilled.

NOTE 10 - Charitable Gift Annuities

Charitable gift annuities consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Charitable gift annuities, 7.00%.	\$ 199,261	\$ 232,417
Less: Current portion	<u>(26,390)</u>	<u>(30,900)</u>
Long-Term Portion	<u>\$ 172,871</u>	<u>\$ 201,517</u>

Principal requirements on charitable gift annuities for years ending after June 30, 2017 are as follows:

2018	\$ 26,390
2019	24,664
2020	23,050
2021	21,542
2022	20,133
Thereafter	<u>83,482</u>
Total	<u>\$ 199,261</u>

NOTE 11 - Intra-diocesan

Grants

St. Francis de Sales Seminary, Inc. (the "Seminary") is a freestanding, separate legal entity. The Seminary has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to the Seminary to fulfill one of the appeal solicitation purposes, and is paid by the Seminary for certain administrative services under a contract. The grant was \$1,350,000 for the years ending June 30, 2017 and 2016. The contribution payable was \$1,350,000 at June 30, 2017 and 2016.

Catholic Charities of the Archdiocese of Milwaukee, Inc. ("Catholic Charities") is a freestanding, separate legal entity. Catholic Charities has a Board of Trustees overseeing governance and administration. The Archdiocese contributes a Catholic Stewardship Appeal grant to Catholic Charities to fulfill one of the appeal solicitation purposes. The grant was \$1,057,012 and \$1,082,012 for the years ending June 30, 2017 and 2016, respectively. The contribution payable was \$1,057,012 at June 30, 2017 and 2016. Catholic Charities also compensates the Archdiocese for certain business services under a contract.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 11 - Intradiocesan (cont.)

Note Receivable

In 2010, the Archdiocese of Milwaukee converted an intra-diocesan receivable from the Seminary to an intra-diocesan note receivable. The long-term portion of this note receivable has been discounted at 3.75% to its net present value and is included in other long-term assets on the statements of financial position. On April 13, 2017, the Seminary made an additional principal payment of \$300,000.

The amount receivable is as follows for the years ended June 30 net of the discount of \$58,312 at June 30, 2017:

2017	\$ 46,174
2018	47,906
2019	49,702
2020	51,566
2021	53,500
Thereafter	<u>179,843</u>
Total	<u>\$ 428,691</u>

Line of Credit

The Archdiocese guarantees a demand line of credit arrangement for Seton Catholic Schools, Inc. in the amount of \$1,500,000. In September of 2017, Seton Catholic Schools secured an increase in their credit line resulting in a total line of credit in the amount of \$3,500,000 until December 31, 2017, and then decreases that amount to \$2,250,000 thereafter through the maturity date of October 30, 2018. The Archdiocese has again guaranteed this demand line of credit.

NOTE 12 - Employee Benefit Plans

The Archdiocese has several pension plans covering substantially all employees. The plans also cover certain individuals employed by Catholic corporations and activities which are located within the boundaries of the Archdiocese, but are not included among the entities that are under the fiscal management of the Archdiocese, as listed in Note 1. A summary of each plan follows:

Cemetery and Mausoleum Employees' Union Pension Plan

Union employees of the cemetery and mausoleum operations were participants in this defined benefit plan. The labor agreement with the Cemetery Employees' Local 113, by the Laborers International Union of America, AFL-CIO (the "Union") expired on March 31, 2017. A new five-year agreement was reached with the Union that will expire on March 31, 2022. This agreement was signed on July 11, 2017.

Under this new agreement, effective April 1, 2017, the Union Pension Plan was frozen and will be merged into the Archdiocese of Milwaukee Lay Employees' Pension Plan. The trust established under the Union Pension Plan will be merged with and into the Lay Pension Plan. After the merging process is completed, the Union Pension Plan and trust will cease to exist. Activities required to complete this merger have begun and will be completed as soon as practical.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 12 - Employee Benefit Plans (cont.)

Cemetery and Mausoleum Employees' Union Pension Plan (cont.)

The following table sets forth the Union plan's funded status. The 2017 accumulated benefit obligation reflects the valuation performed on March 31, the date the plan was frozen. The fair value of the plan assets for 2017 are also as of March 31. Amounts for 2016 are as of June 30.

	2017	2016
Projected benefit obligation at end of year	\$ -	\$ (4,503,005)
Accumulated total benefit obligation at date of freeze	(2,755,894)	-
Fair value of plan assets at end of year	-	1,874,341
Fair value of plan assets at date of freeze	2,094,347	-
Funded Status of the Plan, Recognized in the statements of financial position	\$ (661,547)	\$ (2,628,664)

The assets related to the plan continue to be invested in a balanced investment fund following the plan freeze. These Level 2 inputs had a fair market value of \$2,094,347 and \$1,874,341 at March 31, 2017 and June 30, 2016, respectively. The fund is valued by the investment manager.

The Archdiocese has recognized the following liabilities related to the Cemetery Union Pension Plan. 2017 represents the net liability due to the Lay Pension Plan resulting from the freeze and merger of the plan on March 31, 2016 represents the liability of the Cemetery Union Pension Plan on June 30.

	2017	2016
Funded Status of the Plan	\$ (661,547)	\$ (2,628,664)
Included in Accounts payable	(39,839)	(7,752)
Funded Status of the Plan, Recognized in the statements of financial position	\$ (701,386)	\$ (2,636,416)

At March 31, 2017, and June 30, 2016, the amount of the accumulated vested benefit obligation was \$2,737,641 and \$2,644,323, respectively.

At March 31, 2017, and June 30, 2016, the amount recognized as net periodic pension cost included in wages was \$168,951 and \$225,268, respectively.

The amount of employee and employer contributions to the plan and the benefits paid by the plan for the years ended June 30 are as follows (2017 reflects contributions and benefits through March 31):

	2017	2016
Contributions	\$ 86,518	\$ 131,033
Benefits paid	\$ 88,878	\$ 120,622

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 12 - Employee Benefit Plans (cont.)

Cemetery and Mausoleum Employees' Union Pension Plan (cont.)

Assumptions used in calculating pension expense were:

	<u>2017</u>	<u>2016</u>
Discount rate	3.55 %	3.55 %
Rate of increase in compensation levels next 2 years	1.5 %	1.5 %
Rate of increase in compensation levels beyond 2 years	3.0 %	3.0 %
Expected long-term rate of return on assets	7.0 %	7.0 %

Management determined the expected long-term rate of return on assets based on historical performance and investment portfolio allocations.

Lay Employees' Pension Plan

This is a noncontributory multi-employer defined benefit plan administered by the Archdiocese of Milwaukee. As this is a multi-employer plan, valuation information is not available by employer. The Plan name is the Archdiocese of Milwaukee Lay Employees' Pension Plan (the "Plan"), and the identifying number is 39-6268506. The Plan is exempt from filing IRS Form 5500.

During the 2016-17 fiscal year, there were two events that impacted the Lay Pension Plan:

Plan Design Change – In January of 2017, the plan administrator implemented an approved formula change to the plan. This change was the result of a study that determined a change would be necessary to ensure the long-term health of the plan. Participating employers and employees were provided educational materials related to this change and the Plan document was amended.

Cemetery Union Pension Plan – Effective April 1, 2017, the Union Pension Plan was frozen. The trust established under the Union Pension Plan will be merged with and into the Lay Pension Plan. After the merging process is completed, the Union Pension Plan and trust will cease to exist. Activities required to complete this merger have begun and will be completed as soon as practical.

The Plan's most recent available information is as of June 30, 2016. At that time, all full time lay employees of participating Catholic organizations located within the boundaries of the Archdiocese (except for the union employees of the cemetery and mausoleum operations) who have been employed for one year are covered by the plan. The benefits for employees in the Plan are based on the years of service and the applicable percentage of average monthly compensation of the employee. Following is a summary of the July 1, 2016 and July 1, 2015 valuation funding liability and funded ratio:

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 12 - Employee Benefit Plans (cont.)

Lay Employees' Pension Plan (cont.)

	<u>July 1, 2016</u>	<u>July 1, 2015</u>
Actuarial Accrued Liability	\$ 295,700,000	\$ 287,700,000
Market Value of Assets	239,500,000	236,400,000
Unfunded Accrued Liability	\$ 56,200,000	\$ 51,300,000
Funding Ratio	81.0 %	82.2 %
Total Contributions to the Plan	\$ 8,500,000	\$ 7,400,000

The Archdiocese of Milwaukee's participation in the Plan is approximately 5% of the total contributions to the Plan. Pension expense for the years ended June 30, 2017 and 2016, respectively, was \$380,669 and \$373,944, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

Archdiocese of Milwaukee Priests' Pension Plan

This is a contributory multi-employer defined benefit plan covering all Archdiocesan priests. The Plan name is the Archdiocese of Milwaukee Priests' Pension Plan (the "Priests' Plan"), and the identifying number is 39-6234907. The Priests' Plan is exempt from filing IRS Form 5500.

The benefit for priests in the Priests' Plan is normally a fixed monthly benefit, subject to adjustment if years of service are less than years of incardination. As this is a multi-employer plan, valuation information is not available by employer. The Priests' Plan's most recent available information is as of June 30, 2016. Following is a summary of the July 1, 2016 and July 1, 2015 valuation funding liability and funded ratio:

	<u>July 1, 2016</u>	<u>July 1, 2015</u>
Actuarial Accrued Liability	\$ 38,100,000	\$ 33,900,000
Market Value of Assets	32,600,000	33,200,000
Unfunded Accrued Liability	\$ 5,500,000	\$ 700,000
Funding Ratio	85.7 %	97.9 %
Total Contributions to the Plan	\$ 1,200,000	\$ 1,100,000

The Archdiocese of Milwaukee's participation in the Plan is approximately 5% of the total contributions to the Plan. Pension expense for the years ended June 30, 2017 and 2016 was \$62,991 and \$46,161, respectively, which includes amortization of past service costs over 30 years. Annual contributions to the plan equal amounts accrued for pension expense.

PostRetirement Benefits Other Than Pensions

The Archdiocese provides defined benefit post-retirement health, dental, and vision insurance benefits to its diocesan priests. The vision benefits were added to the plan during the year ended June 30, 2008. Covered members become eligible for these benefits at retirement after meeting minimum age and service requirements. The costs of future benefits are accrued during the priest's active working career. The Archdiocese funds benefits on a pay as you go basis, with some retirees paying a portion of the costs.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 12 - Employee Benefit Plans (cont.)

PostRetirement Benefits Other Than Pensions (cont.)

At June 30, 2017 and 2016, the postretirement health insurance benefit plan did not have any assets.

The following table sets forth the plan's funded status and amounts recognized in the statements of financial position.

	2017	2016
Accumulated postretirement benefit obligation	\$ 22,689,191	\$ 24,464,266
Fair value of plan assets	-	-
Funded Status of Plan, Recognized in the statements of financial position	\$ (22,689,191)	\$ (24,464,266)

Amounts that have yet to be recognized as components of net periodic benefit cost for the year ended June 30:

	2017	2016
Unrecognized net loss	\$ 6,473,869	\$ 9,304,438
Unrecognized prior service credit	\$ 267,953	\$ 588,733

The net amortization of the above amounts that are reclassified into a component of net periodic benefit cost for the years ended June 30, 2017 and 2016 was \$152,186 and \$86,694, respectively.

The amounts expected to be recognized into net periodic benefit cost in the year ended June 30, 2018 are as follows:

Unrecognized net loss	\$ 293,232
Unrecognized prior service credit	\$ 283,709

The amount of employer contributions to the plan and the benefits paid by the plan for the years ended June 30 are as follows:

	2017	2016
Employer contributions	\$ 741,840	\$ 709,089
Benefits paid	\$ 741,840	\$ 709,089

The Archdiocese expects to contribute approximately \$928,173 to the plan during the year ended June 30, 2018.

Expected benefit payments for the years ended June 30:

2018	\$ 928,173
2019	993,856
2020	1,056,316
2021	1,114,647
2022	1,165,651
2023-2028	6,092,463
	\$ 11,351,106

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 12 - Employee Benefit Plans (cont.)

At June 30 2017 and 2016, the amount recognized as net periodic pension cost included in wages was \$1,476,584 and \$1,346,706, respectively.

The weighted average discount rate used to develop the present value of benefit obligations was 3.75% and 3.25% at June 30, 2017 and 2016, respectively. The weighted average discount rate used to develop the net post retirement expense was 3.25% and 4.00% at June 30, 2017 and 2016, respectively.

The medical cost trend rate used to value the accumulated post-retirement benefit obligation is 8.0% for 2018, and is assumed to decrease gradually to an ultimate rate of 4.5% in 2024. The dental and vision cost trend rates used for 2018 and thereafter are 4.5%.

NOTE 13 - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for (a) other particular operating activities, (b) use in a specified future period, (c) investment for a specified term, or (d) combinations of the above.

Temporarily restricted net assets are restricted as follows as of June 30:

	<u>2017</u>	<u>2016</u>
Catholic Stewardship Appeal	\$ 5,549,375	\$ 5,222,077
Charitable remainder trusts	693,716	-
Mary B. Finnegan Trust	686,250	492,843
Rapp Trust (for capital needs of St. Michael's Church in Mitchell, Wisconsin)	342,219	316,271
Therapy Fund	328,606	427,978
Campus Ministry Grant	276,929	276,929
Care for Retired Priests	168,710	178,073
Radecki Bequest	164,513	164,513
Other Funds with Purpose and/or Temporal Restrictions	<u>3,839,804</u>	<u>2,627,087</u>
Total Temporarily Restricted Net Assets	<u>\$ 12,050,122</u>	<u>\$ 9,705,771</u>

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 14 - Permanently Restricted Net Assets

Permanently restricted net assets consist of amounts contributed by donors with the express intent that the principal be maintained in perpetuity. Donors have specified that the investment income be used for (a) scholarships, (b) other particular operating activities, or (c) other general expenses.

	<u>2017</u>	<u>2016</u>
Education Endowment Fund (for the support and furtherance of Roman Catholic education in the Catholic Archdiocese of Milwaukee)	\$ 1,000,000	\$ 1,000,000
Msgr. Eugene J. Kapalczynski Development Fund	2,624,360	2,624,360
General operations and other	<u>92,006</u>	<u>92,006</u>
Total Permanently Restricted Net Assets	<u>\$ 3,716,366</u>	<u>\$ 3,716,366</u>

NOTE 15 - Endowment

The Archdiocese follows the provisions of current authoritative guidance relating to endowments of not-for-profit organizations, which provides guidance on classifying net assets associated with donor-restricted endowment funds held by an organization. A key component of the guidance is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

Interpretation of Relevant Law – The Archdiocese has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. The Archdiocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Archdiocese in a manner consistent with the standard of prudence prescribed by UPMIFA as adopted by the state of Wisconsin. If the fair value of the permanently restricted net asset at year end is below the original fair value, the deficit is recorded as an unrestricted unrealized loss.

Fund Objectives and Policies – The endowment funds assist the Archdiocese in its mission by providing support for Catholic education and for the support of operations and activities of the Archdiocese's programs and services. The endowment funds consist of donor restricted gifts. The endowment funds are invested in conservative fixed income investments to provide funding for the purposes supported by the endowments with a primary objective of maintaining the principal of the endowment assets. The Archdiocesan spending policy is that the income generated by the investments can be used for purposes which are consistent with the donor restrictions.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 15 - Endowment (cont.)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Archdiocese to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles ("GAAP"), deficiencies of this nature that are reported in unrestricted net assets were \$0 as of June 30, 2017 and 2016.

Endowment net asset composition by type of fund consists of the following as of June 30:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ 61,292	\$ 1,260,410	\$ 3,716,366	\$ 5,038,068
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	\$ -	\$ 747,429	\$ 3,716,366	\$ 4,463,795

Changes in endowment net assets for the year ended June 30 are as follows:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2016	\$ -	\$ 747,429	\$ 3,716,366	\$ 4,463,795
Deposits	60,000	-	-	60,000
Investment return				
Investment income	1,292	85,010	-	86,302
Net appreciation realized and unrealized	-	479,651	-	479,651
Total Investment Return	1,292	564,661	-	565,953
Appropriation for expenditure	-	(51,680)	-	(51,680)
Endowment Net Assets: June 30, 2017	\$ 61,292	\$ 1,260,410	\$ 3,716,366	\$ 5,038,068

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 15 - Endowment (cont.)

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets: June 30, 2015	\$ -	\$ 870,520	\$ 3,716,366	\$ 4,586,886
Investment return				
Investment income	-	(18,054)	-	(18,054)
Net depreciation realized and unrealized	-	(70,863)	-	(70,863)
Total Investment Return	-	(88,917)	-	(88,917)
Appropriation for expenditure	-	(34,174)	-	(34,174)
Endowment Net Assets: June 30, 2016	\$ -	\$ 747,429	\$ 3,716,366	\$ 4,463,795

NOTE 16 - Protected Self-Insurance Program

The Archdiocese, both for itself and as the agent for all parishes and various other Catholic entities operating within the boundaries of the Archdiocese, entered into a protected self-insurance program to provide uniform property and liability coverage under a comprehensive plan. Premiums and loss reserves are determined and claims are processed by a service agency on a contractual basis.

Losses are paid from the loss fund of the protected self-insurance program to which premiums are paid by the participants. No single claim from the loss fund may exceed a specified maximum. Claims in excess of this maximum are fully covered by insurance. Any portion of the loss fund, which might revert back to the Archdiocese, is not measurable.

NOTE 17 - Administrative Services for Unrelated Organizations

The Archdiocese of Milwaukee provides administrative services to several unrelated organizations, including the Faith in Our Future Trust and Seton Catholic Schools, Inc. Under the agreements the Archdiocese may advance payments for expenses, which are then reimbursed to the Archdiocese. Contributions to the Faith in Our Future Trust are donor restricted, and grants from the Trust can be made only for purposes of Catholic Education and Faith Formation, as specified and disclosed in materials provided to donors. The Archdiocese of Milwaukee does not have control or a beneficial interest in the net assets of the Faith in Our Future Trust or other unrelated organizations for which the Archdiocese of Milwaukee provides administrative services and, therefore, none of the activities of the Trust or the other unrelated entities are included in the Archdiocese financial statements.

ARCHDIOCESE OF MILWAUKEE

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2017 and 2016

NOTE 18 - Concentrations

The Archdiocese maintains cash balances in four institutions which exceed the federally insured limit of \$250,000 for interest earning accounts. The Archdiocese has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

NOTE 19 - Commitments

The Archdiocese currently owns and operates eight cemeteries and seven mausoleums in southeastern Wisconsin. In July of 2016, the Archdiocese signed a management services contract with Catholic Management Services (CMS), a nonprofit organization specializing in strategic business planning and professional services to cemetery operations. CMS, which is operated under the Diocese of Oakland and headquartered in Pleasanton, CA, currently serves multiple dioceses in the Midwest and across the country. The term of the agreement automatically renews for successive one-year terms, unless one party provides written notice to the other party at least ninety (90) days in advance of the end of the then-existing term, that it does not wish to renew for an additional term. Either party may terminate with advance written notice of not less than ninety (90) days.

NOTE 20 - Subsequent Event

The Cemetery Trust line of credit is secured by a first mortgage lien on the five real estate parcels listed below:

<u>Property</u>	<u>Location</u>
Prospect Hill Property	New Berlin
Plunkett Property	Germantown
Nicholson Road Property	Caledonia
Scarlatto Property	Mount Pleasant
All Souls Property	Franklin

The Archdiocese is obligated to attempt to sell all of the first lien properties to repay the amount borrowed under the Cemetery Trust line of credit. In October of 2017, the Archdiocese listed these properties for sale.

The Archdiocese has evaluated subsequent events through November 2, 2017 which is the date that the financial statements were approved and available to be issued.